Hotels - The Netherlands – Spring 2019

SPOTLIGHT

Savills Research

Chain reaction results in five-star prospects

savills

Hotel Jakarta **Amsterdam**

Question What factors have contributed to the tremendous rise in hotel interest from (international) investors and global operating brands?

Amsterdam Hyatt Regency

Spotlight Hotels: The Netherlands

One of the most notable features of the Dutch hotel investment market over the past few years has been increased competitive investor interest and the subsequent contraction of yields for prime hotel assets.

Prime yields compression since 2014

-450 bps **Hotels**

-250 bps **Offices**

-225 bps **Logistics**

Prime yields have compressed twice as fast for hotels (-450 bps) compared to offices (-250 bps) or logistics (-225 bps) since 2014. This yield contraction is understandable considering current market dynamics, where the 'hunt for yields' has prevailed amongst all real estate asset classes. However, the pace of contraction for hotel yields is particularly noteworthy, with current prime hotel investment yields now reflecting those achieved in more conventional commercial real estate products such as offices and retail, where investment values are chiefly based on rent per sq m and not on operational profitability, as in hotels.

Historically, hotels were perceived as a niche investment market with associated complexity and risk. This corresponded to a more industry-specific investor base with higher return expectations. Despite traditional product complexity and diversity however, European and especially Dutch hotels have attracted much greater investor interest over recent years, establishing a larger and more diverse stakeholder spectrum. This can also be attributed to the professional globalisation of the hotel market, illustrated by the increasingly strong presence of especially international hotel chains operating in the Netherlands. What other factors have contributed to the tremendous rise in interest from (international) investors and global operating brands?

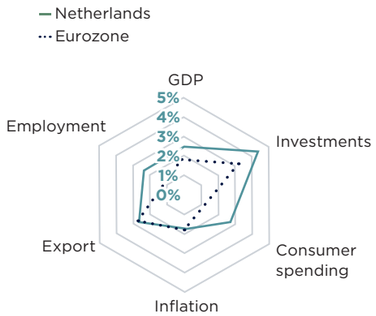
Industry performance

Strong growth due to balanced demand mix from both corporate and leisure guests

> **Savills anticipates continuous growth in hotel demand, further increasing hotel performance and investment values in 2019**

The Dutch economy is doing extremely well, with economic growth continuing to outperform Eurozone averages. Not only is the Netherlands currently in the 19th consecutive quarter of GDP growth, consumer spending also increased by 3.3% and investments are at an all-time high.

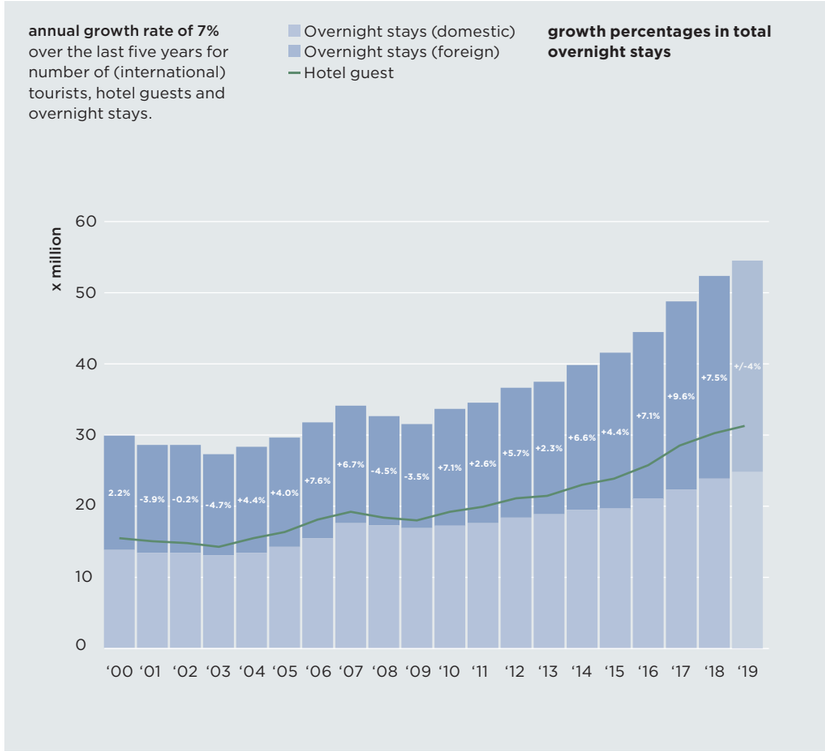
Performance on key economic indicators annual YoY %-change.



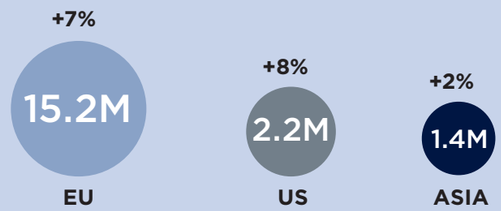
Economic performance is the first to spark the chain reaction as it directly impacts customer demand (visitor streams). Tourism has been performing well throughout the 21st century, with a few setbacks during periods of economic downturn. During the last recession, the downturn in visitor streams quickly recovered, requiring a mere two years to return to pre-crisis levels. This is substantially faster than the office market for example, where annual take-up growth only started its recovery in 2015.

Figures display an annual growth rate of 7% over the last five years for number of (international) tourists, hotel guests and overnight stays. The majority of visitor growth has been generated from domestic tourism, and from key neighbouring visitor markets like Germany, Belgium and the US. The initial boom of Asian visitors appears to have stabilised, with a growth rate of approximately 2% in the last year.

Graph annual guest and overnight stay figures in the Netherlands



International tourists in the Netherlands in 2018 19.1M (+7%)

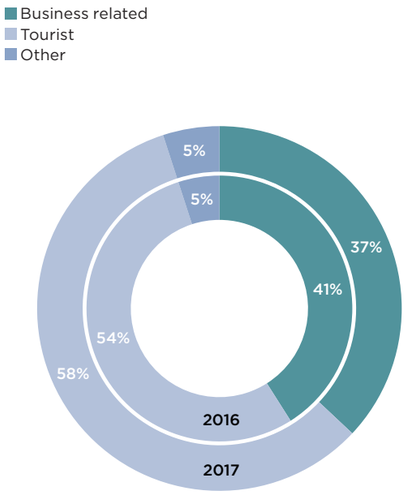


Source Savills Research

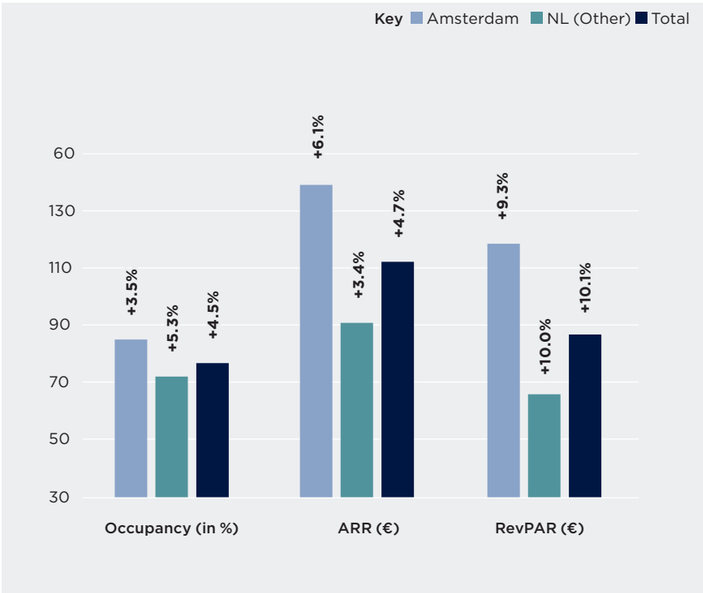
BUSINESS AND LEISURE

In addition to visitor diversification, the Dutch hotel market benefits from a strong mix in travel demand drivers with a healthy balance of business (37%) and leisure (58%) hotel guests, although leisure tourism has become slightly more important for the total number of overnight stays in 2018. This is in contrast to other real estate markets, which usually exclusively focus on business-to-business (b2b) (e.g. office or industrial) or business-to-consumer (b2c) (e.g. retail or residential). Low unemployment and corresponding corporate activity have resulted in high office occupancy levels, further stimulating corporate hotel demand and enhancing hotel performance. This is amplified in the case of the European Medicines Agency (EMA - due to relocate to Amsterdam in 2019) in its previous location in London, where it generated an annual total of around 40,000 overnight stays. Amsterdam's excellent connectivity with world class transport networks, attractive tax incentives, and an educated, english-speaking labour force have contributed to the city becoming a major global business hub and 'Brexodus' location, further stimulating hotel trade, investment values and a strong development pipeline.

Travel purpose of overnight stays in the Netherlands Tourism has taken up a higher share of overnight stays in 2017

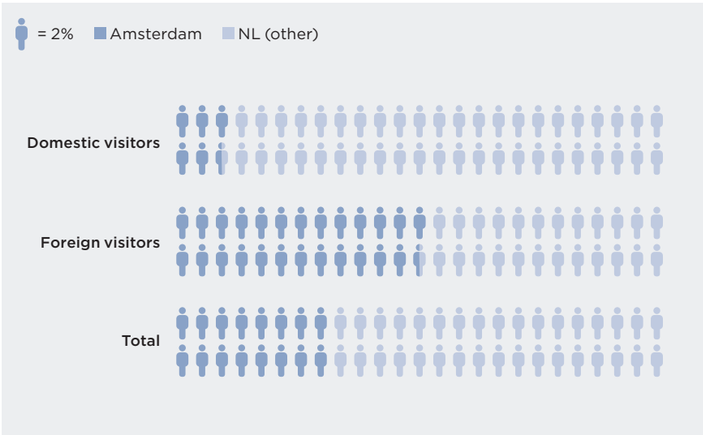


Key Hotel Indicators All hotel indicators are showing tremendous YoY performance in 2018



Source Savills Research

Overnight stays Amsterdam as share of total Over half of all foreign overnight hotel stays in 2018 were in Amsterdam



Source Savills Research

> In terms of performance, the Dutch hotel industry is thriving, achieving record occupancy, average daily rates and revenues

Amsterdam Corendon Village

HOTEL OPERATORS:

Established brands ensure operational efficiency and strong lease terms

The Netherlands currently has about 130,000 rooms and, in line with general globalisation, brands are increasingly the partner of choice for large scale new hotel developments. To successfully exploit operational efficiencies, brands are typically associated with large-scale (100+ room) hotel operations. Whilst a mere 20% of Dutch hotels are brand affiliated, branded hotels account for almost 60% of all Dutch hotel rooms. Chain penetration is especially evident in Dutch city centres, airports and in the upscale and luxury hotel segments with many of these brands being internationally rooted. In 2017, for example, the number of international brands operating in the Netherlands increased by 11.5%. Of the eight new brands to enter the Dutch market over the past two years, seven were international. At the same time, the amount of independent hotels has been decreasing, with the midscale, budget and boutique segments now accounting for most non-branded hotels. This process of internationalisation and chain affiliated hotels is anticipated to persist, making the Dutch hotel sector increasingly professional and global.

Despite increased chain penetration, the Dutch hotel market has also witnessed a rise of non-traditional or alternative hotel product including dual-branded (MOXY Hotel/Residence Inn Houthavens), apart-hotel (Cityden Up) and serviced apartment (Staybridge Suites The Hague-Parliament) accommodation. The introduction and increase of these new hotel-based concepts is due in part to evolving societal dynamics, including cases where workers require accommodation for shorter time periods than conventional residential lease contracts permit.

As a result, much contemporary urban hotel real estate is increasingly moving its focus from the traditional delivery of bedrooms towards the provision of a service, mixed-use experience hotel product. The transition towards the provision of a service and the increase of brand importance are also apparent in other markets. Take for instance the office market, where shared and flexible office space have experienced a spectacular rise in market share over the last few years. A difference with this emergence, however, is that while lease terms are becoming increasingly shorter and flexible for offices, hotels are still stable in that perspective. This is especially the case for well-performing brands, that agree to long-term leases. The scale and performance stability of these brands, combined with these long operational lease terms are thus inherently at the heart of the chain reaction that has sparked the surge in investors' interest.

The line between residential uses and hotels is blurring.

WHO TO WATCH IN THE COMING YEARS?

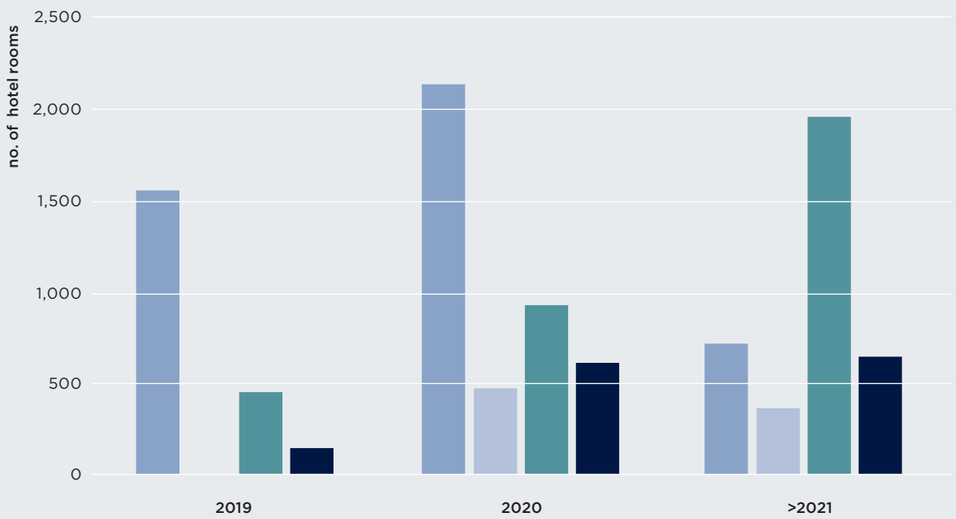
The line between residential uses and hotels is increasingly becoming blurred. This is a direct result of evolving societal dynamics and changing demand tastes. Central to this are Millennials. Millennials have become adults and by 2024 will constitute 75% of the active workforce. For future hotel operators and investors, it is imperative to understand that this cohort spend their money differently to previous generations. Not only do they love to travel, they are also more 'footloose' and if available, often choose to live and work only for a couple of months in a new location. This has important consequences for the hotel market, having led to the emergence of new alternative accommodation concepts and the well documented rise of AirBnB. Market opportunities arise for those developers and investors who have the ability to adapt quickly to these changes.

2024

Millennials have become adults and by 2024 will constitute 75% of the active workforce

Key ● Amsterdam ● Hoofddorp/Schiphol ● Rotterdam, The Hague & Utrecht ● NL Other

Dutch development pipeline of hotels The magnitude of the hotel pipeline is shifting from Amsterdam to the other major Dutch cities



Source Savills Research

Policy considerations

As with other types of real estate in the Netherlands, the market for hotels is substantially influenced by policy intervention.

The municipal council of Amsterdam for instance, under pressure from local residents who wish to deter the increasing tide of Amsterdam tourism, has been targeting new hotel supply by prohibiting new hotel developments. Nevertheless, policy differences exist regarding market disruptors. The boom of AirBnB in Amsterdam was stopped for instance by restrictive measures: after an initial cap of 60 days, restrictions were imposed at the start of 2018 which limit AirBnB lettings to an annual maximum of 30 days. Other sectors of the market have not seen this kind of political interference. For example, no restrictions were imposed on operators of flexible office space or when Picnic emerged as competitor to supermarkets. A result of the restrictive policy measures is that the growth of competitive supply to hotels – at least in Amsterdam – is being controlled. It should be noted however, that the ban on new hotel development in Amsterdam doesn't impact the thousands of rooms that were already in the development pipeline.

The majority of Amsterdam's hotel pipeline will be completed during 2019 and 2020, after which it will virtually disappear. As approximately 650 new hotel rooms are added in the city centre, the pipeline is especially concentrated in peripheral locations. Demand is still ahead of supply, however, and this disparity will only become larger with corresponding price rises being the likely result.

Rising prices and development restrictions in Amsterdam are part of the chain reaction that causes tourists and hotel developers alike to expand their horizon to other Dutch cities.

> **"The majority of Amsterdam's hotel pipeline will be completed during 2019 and 2020, after which it will virtually disappear."**

After an initial cap of 60 days, restrictions were imposed which limit AirBnB lettings to an annual maximum of 30 days.

Pulitzer **Amsterdam**

> If the location is right, investors seem willing to pay the same price for branded as non-branded hotels. Overall, the operating model crucially determines the amount of cash flow the owner keeps

Artist impression nhow RAI Mark Veldman

Table Notable recent Dutch hotel transactions

Hotel	Type	City	Period	Rooms	Price	Purchaser	Price per room
Holiday Inn Express	Chain (budget)	Amsterdam	19Q1	246	Conf.	M&G (UK)	Conf.
INK	Chain (lux)	Amsterdam	18Q4	149	€60M	Amundi (FR)	€403,000
Sheraton	Chain (upscale)	Schiphol	18Q3	407	€113M	InterGlobe Enterprises (IN)	€278,000
Marriott	Chain (upscale)	The Hague	18Q3	306	€68M	YTL Corp (MY)	€222,000
Holiday inn	Chain (budget	Eindhoven	18Q2	180	€24M	Perial SCPI (FR)	€135,000
The Manor	Independent (Up/Mid)	Amsterdam	18Q2	125	Conf.	Deka (DE)	Conf.
Kimpton de Witt	Chain (upscale)	Amsterdam	18Q2	274	€164M	Global Holdings (US)	€597,000
Room Mate Bruno	Chain (upscale)	Rotterdam	18Q2	217	€51M	BNP Paribas (FR)	€235,000
Hilton	Chain (upscale)	Rotterdam	18Q1	254	€50M	First Sponsor Group (SG)	€198,000
QO Amsterdam	Independent (upscale)	Amsterdam	18Q1	288	€110M	Invesco (US)	€382,000
Conscious Westerpark	Independent (upscale)	Amsterdam	18Q1	89	€37M	Millten, Harvest, Stutterheim (NL)	€421,000
NH Barbizon Palace	Chain (upscale)	Amsterdam	18Q1	268	€156M	Deka (DE)	€580,000

Source RCA

Investment market

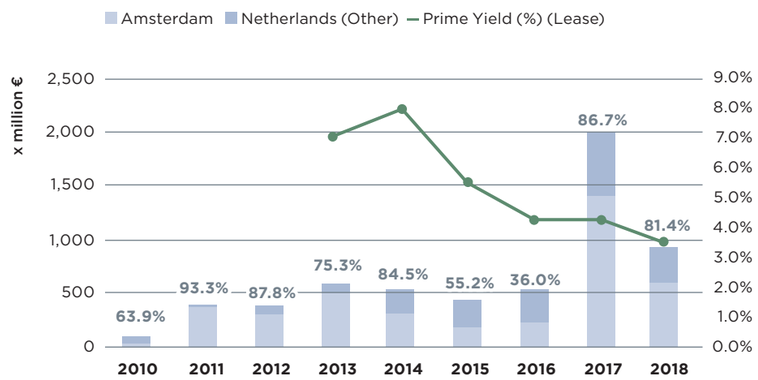
what drove the pace of yield contraction?

The aforementioned factors were all part of the chain reaction that led to the notable increase in (international) institutional investor interest with a widening range of hotel investors.

Hotel (re)developments are more rapidly obtaining a certain level of performance and maturity due to the positive stage of the cycle buoyed by high growth in visitor numbers.
The risk of these developments has thus decreased, making it more attractive for groups of institutional investors, next to value-add investors or specific hotel investors.

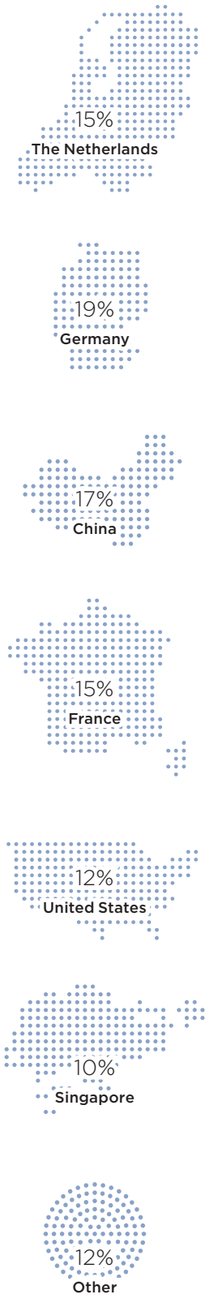
The conclusive answer is therefore that aside from the hunt for yield, strong industry performance, shorter maturity times and lower initial risks have all been factored into gross initial yields. It is however, important to keep in mind that yields in Amsterdam remain in a league of their own compared other Dutch markets.

hotel investments and yields (plus % share of international investors)
International investors continue to dominate the hotel investment market



> As a result of limited investment supply in Amsterdam, many investors are seeking opportunities in other hotel growth markets in the Netherlands

ORIGIN HOTEL INVESTMENTS
2017 & 2018



KEY FINDINGS

1 Yields for prime hotel investments decreased twice as fast (450 bps) since 2014 compared to office or logistic investment returns, partly driven by the hunt for yields

2 Other factors that drove this contraction are the sustainable growth in demand, strong brand performance with long-term leases and a regulation of supply through policy.

3 Visitor streams continue their spectacular growth: 2018 has seen an increase of 6.8% in overnight stays and 6% in hotel guests, originating from a variety of countries and a healthy mix between business and leisure travel purposes

4 (International) brands are increasingly active: 20% of Dutch hotels are branded but operate 60% of all hotel rooms

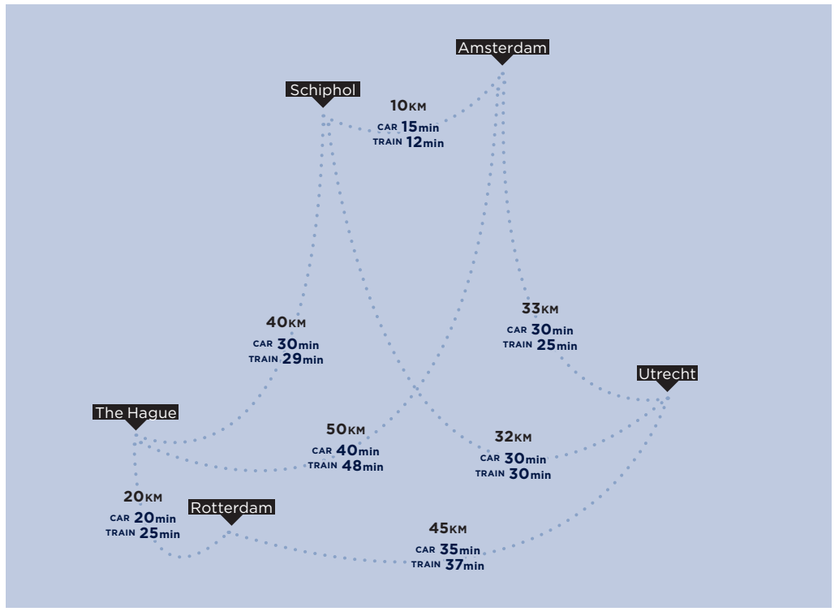
5 Policy interventions command the playing field of hotel supply in Amsterdam

6 Emerging non-traditional hotel products such as short-stay apartments and co-living continue to evolve and attract investor interest

7 In line with broadening range of buyer types, the Netherlands has witnessed a notable increase in institutional investor interest in the hotel sector

8 The increasingly distinct characteristics of hotels ensure that it will retain its core hedging ability in the future.

The Netherlands Good connectivity between Dutch cities, which enables an overflow of demand from Amsterdam



Source Savills Research

Savills Outlook

unveiling investment opportunities

2019 will likely prove to be another stable year of growth for hotel performance in the Netherlands. Visitor streams are anticipated to continue growing and this increase in demand will positively affect hotel occupancy, room rates and therefore RevPAR. The magnitude of the growth in RevPAR will be different for Amsterdam compared to other cities as a result of additional supply coming on the market. In that sense, 2019 and 2020 are more likely to show slightly lower levels of growth for Amsterdam due to the addition of approximately 3,500 rooms. Under stable economic conditions, this may substantially rise after 2020.

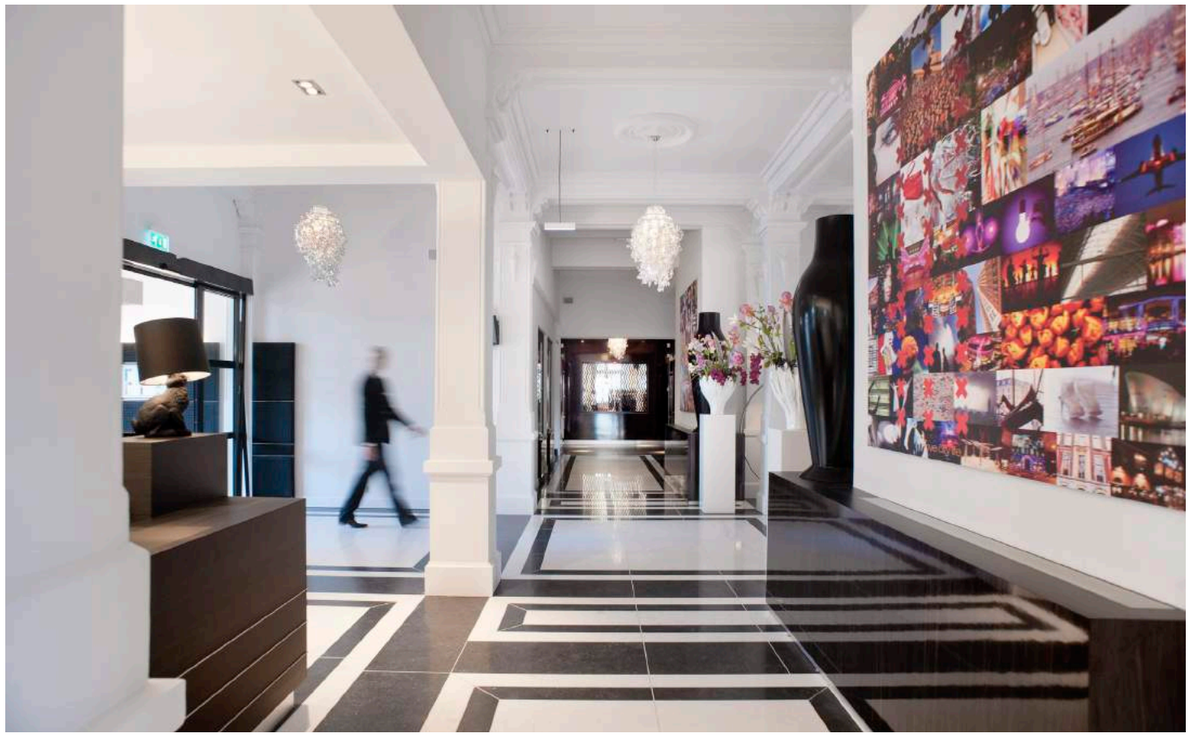
A consequence of sustainable growth will be persisting investor interest in the Dutch hotel investment market. Supply is scarce in Amsterdam whilst on the other hand, cities as Utrecht, Rotterdam and The Hague are experiencing an unprecedented rise in hotel developments and investment activity. This is supported by a rise of profitability in these cities, instigated by growing visitor numbers and strengthening local economies.

In 2017, Utrecht for example experienced a 36% YoY growth in hotel guests, while The Hague had its first year with over a million hotel guests. This is partly due to good connectivity between Dutch cities, which enables an overflow of demand from Amsterdam.

An important final note is that despite the on-going interest for hotels, prime yields in Amsterdam will likely stabilise due to already being at the same level as core assets in traditional real estate sectors.

2019 will likely prove to be another stable year of growth for hotel performance in the Netherlands.

The Manor Hotel **Amsterdam**



Source : CBS, Hosta, Horvath, Municipality of Amsterdam, Oxford Economics, Real Capital Analytics Inc., Savills Research

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